MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/ 2023

BFN2054 – PORTFOLIO MANAGEMENT

(All Sections / Groups)

4 October 2023
2:30 P.M – 4:30 P.M
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages (including the cover page) with **4 QUESTIONS.**
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Write you answers in the answer booklet proved.

Please Answer all the Questions

QUESTION 1: (25 MARKS)

a) CPU Company currently (t = 0) pays a dividend of RM2.50 per share on its common stock. Dividends are expected to increase at the rate of RM0.25 per share for the next several years. Determine the current value of CPU's common stock to an investor who expects to be able to sell the stock for RM35 per share after 3 years, given that the investor requires a 14 percent rate of return on this security. **(10 marks)**

b) Explain the relationship between financial decision and shareholders' wealth. **(5 marks)**

c) Discuss the reasons why a firm may repurchase its own common stock. **(10 marks)**

QUESTION 2: (25 MARKS)

a) Under what circumstances can the beta concept be used to estimate the rate of return required by investors in a stock? What problems are encountered when using the CAPM? **(10 marks)**

b) Distinguish between unsystematic and systematic risk. Under what circumstances are investors likely to ignore the unsystematic risk characteristics of a security? **(10 marks)**

c) Compare and contrast a financial asset and real estate and provide an example of both assets. **(5 marks)**

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QUESTION 3: (25 MARKS)

You have the following information on two securities in which you have invested:

Security	Expected Return	Standard Deviation	Beta	Percent Invested (w)
Xerox	15%	4..5%	1.2	35%
Kodak	12%	3.8%	0.98	65%

a) Which stock is riskier in a portfolio context? Which stock is riskier if you are considering them as individual assets (not part of a portfolio)? **(10 marks)**

b) Compute the expected return on the portfolio. **(5 marks)**

c) If the securities have a correlation of +0.60, compute the standard deviation of the portfolio. **(5 marks)**

d) Compute the beta of the portfolio. **(5 marks)**

QUESTION 4: (25 MARKS)

a) What is the difference between a brownfield and greenfield project? **(15 marks)**

b) Explain what is a constant mix strategy for portfolio rebalancing. **(5 marks)**

c) Comment on the following statement: Gold is a dangerous investment because its pricing is controlled by a European cartel of banks. **(5 marks)**

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